February 03, 2023

Total Transport Systems Limited: [ICRA]BB+(Stable)/[ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund-based – Cash Credit	32.25	[ICRA]BB+(Stable) / [ICRA]A4+; assigned
Long-term/ Short -term – Unallocated Limits	25.00	[ICRA]BB+(Stable) / [ICRA]A4+; assigned
Total	**57.25**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings favourably factor in the extensive experience of the promoters of Total Transport Systems Limited (TTSL) in the freight forwarding industry. The ratings also factor in the steady ramp-up in revenues witnessed over the last five fiscals at a CAGR of 22.26%, accelerated by pent-up demand following Covid-19, supported by a sharp rise in freight realisations. The top line stood at Rs. 583.2 crore in FY2022 over Rs. 213.5 crore in FY2018 at the consolidated level. The ratings also factor in the asset-light nature of the business and a low debt levels, which have resulted in comfortable leverage levels and coverage indicators.

The ratings, however, are constrained by the fragmented nature of the industry with stiff competition from domestic as well as international players, resulting in limited profitability levels over the years. Further, the profitability remains exposed to economic cyclicity and freight rates, which remained volatile for past years. In addition, the business remains exposed to Government trade regulations and trade policies of various countries, which could impact the company's business materially. ICRA also notes that the subsidiary operations have been a drag on the company at the consolidated level, given the loss making operations of its key subsidiary, One World Logistics Pvt. Ltd., which is involved in last-mile delivery operations. Given the long gestation nature of the business, the ability of the company to turn around and profitability grow the business of its subsidiaries will remain key from a rating perspective.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that TTSL will continue to benefit from its extensive experience in the freight forwarding business and comfortable financial profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the freight forwarding industry – TTSL has an established presence in the freight forwarding industry with a track record of operations since 1994, with core expertise in the consolidation business. The company currently enjoys a pan India presence with offices near all major ports. Over the years, it has expanded into various trade lines.

Asset-light business model – The company is a Non-Vessel Operating Common Carrier, wherein the company does not own any fleet, containers, warehouses, or shipping lines and generally leases them on a yearly contract basis. This has resulted in low capex requirements over the years. This protects the company to an extent in case of any downturn in the economy, in terms of under utilisation of assets. ICRA notes, however, that the company is looking to expand its fleet for last mile delivery under one of its subsidiaries, whose impact will be monitorable on the consolidated profile.

Comfortable gearing and coverage levels, with debt largely limited to working capital requirements – TTSL's low capex requirement with debt limited to working capital requirement has resulted in a comfortable financial position depicted by the low gearing ratio of 0.5 and interest coverage of 9.2 times as on March 31, 2022, at a consolidated level. In FY2023, the capex requirement of Rs. 20 crore under its subsidiary, One World Logistics Pvt. Ltd., will be met by raising equity, thereby supporting the net worth and coverage metrics.

Credit challenges

Fragmented industry with low entry barriers, exposing TTSL to stiff competition resulting in low profitability levels – As the freight forwarding industry is highly fragmented due to low entry barriers, it exposes the company to high competition from domestic as well international players. The same has constrained the profitability levels over the years, restricting TTSL's business expansion.

Revenue and profitability remain vulnerable to charter rates – The revenue and profitability levels remain susceptible to charter/ freight rates, and any sharp fluctuations in these rates impact the top line as well as profitability levels of the company. During the Covid-19 pandemic, freight rates surged significantly, which in turn supported the top-line growth of the company in FY2022. The surge came on the back of pent-up demand after the pandemic and shortage of shipping capacity due to vessel unavailability. However, with the situation normalising post-Covid, the freight rates have been on a declining trend in H1 FY2023. Hence, the rate of growth is expected to taper in the near term.

Exposure to cyclicality in the economy, given direct linkage to economic cycle – The performance of the freight forwarding industry is linked to global economic activities, which impacts trade volumes. Historically, the industry has experienced cyclical fluctuations in financial results due to economic recessions, downturn in business cycles, fuel shortages, and vessel unavailability. In addition, the company's performance remains exposed to Government trade regulations and trade policies of various countries, which could impact the company's business materially.

Ability to turn around and profitably scale up subsidiaries remains critical for improvement in credit metrics at the consolidated level – Currently, the subsidiary operations of TTSL have been a drag at the consolidated level, given the operating losses of some of its subsidiaries. Moreover, TTSL's key subsidiary, One World Logistic Pvt. Ltd., is involved in last-mile delivery largely for e-commerce players, which is a long gestation business. The same has been loss-making since inception and is expected to turn around only by FY2026. The business there also remains partly asset-heavy, thereby necessitating capital expenditure. The ability of the company to turn around and profitably scale up the business in its subsidiaries, while maintaining the capitalisation and coverage metrics at the consolidated level, will remain a key rating sensitivity.

Environmental and Social Risks

Environmental considerations: The logistic and cargo shipping industry is exposed to environmental risk of air, water and land pollution, with high amount of CO_2 emissions from cargo ships and airplanes. This high CO_2 emission can have significant environmental impacts. Carbon footprint is also a key issue in the delivery business. Through its subsidiary, One World Logistics Pvt. Ltd., TTSL is involved in the last mile delivery business. The company has also recently acquired 50 e-scooters under its subsidiary to support the Government initiative to reduce environmental pollution by reducing its carbon footprint. Though these measures support greening initiatives and improve the sustainability of its business, TTSL's ability to operate under a strict regulatory framework related to vehicle and shipping regulations will remain a monitorable from the credit perspective.

Social considerations: The company is a logistic solution provider, wherein skilled workforce is a key requirement. Hence, TTSL's ability to ensure that policies related to a healthy workforce, healthy workplace culture and equal opportunities are adhered to, and remain key for business continuity and healthy credit profile.

Liquidity position: Adequate

TTSL's liquidity position is **adequate** as reflected by unencumbered cash and bank balance of Rs. 10.88 crore as on September 30, 2022, and an undrawn buffer of ~Rs. 9.03 crore as on November 30, 2022. In addition, ICRA expects the entity to generate adequate cash flows to meet its debt repayment of Rs. 1.73 crore in FY2023 and Rs. 1.7 crore in FY2024, at the consolidated level. The near-term capex of Rs. 20 crore in FY2023 is to be funded by fresh equity infusion through the preferential route. The liquidity is also supported by the enhancement in fund-based working capital facilities in October 2022, with average utilisation at 77% of drawing power limits in the last six months.

Rating sensitivities

Positive factors – ICRA could upgrade TTSL's ratings if the company demonstrates a healthy improvement in its earnings, and profitability leading to overall improvement in financial metrics and liquidity profile on a sustained basis, at the consolidated level.

Negative factors – The rating could be downgraded if the company reports a decline in revenue or profitability resulting in lower-than-anticipated cash accruals, or delay in turnaround of operations in the subsidiary, or if any large, debt-funded capex impacts the coverage metrics or liquidity profile at the consolidated level.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation	The ratings are based on the consolidated financial statements, as enlisted in Annexure II.

About the company

In 1994, Total Transport Systems Limited was incorporated by Mr. Makarand Pradhan Prabhakar, Mr. Sanjiv Arvind Potnis and the Late Prashant Ramkrishna Salvi. The company is a non-vessel operating common carrier engaged in the freight forwarding business. TTSL's main business activities are the consolidation of export cargo, deconsolidation of import cargo, full container loads, and air freight from India to destinations around the world. The company enjoys a pan India presence with offices near all major ports, as well as two offices in the neighbouring countries of Nepal and Bhutan.

Key financial indicators (audited)

TTSL Consolidated	FY2021	FY2022	H1 FY2023*
Operating income	314.9	583.2	344.7
PAT	- 0.8	9.2	5.1
OPBDIT/OI	1.3%	3.1%	3.0%
PAT/OI	-0.2%	1.6%	1.5%
Total outside liabilities/Tangible net worth (times)	1.2	1.4	1.2
Total debt/OPBDIT (times)	5.8	1.5	1.3
Interest coverage (times)	1.7	9.2	6.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Provisional*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 3, 2023	-	-	-
1	**Cash credit**	Long term and short term	32.25	-	**[ICRA]BB+(Stable)/ [ICRA]A4+**	-	-	-
2	**Unallocated Limits**	Long term and short term	25.00	-	**[ICRA]BB+(Stable)/ [ICRA]A4+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Cash credit	Simple
Long-term/ Short -term – Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA		32.25	[ICRA]BB+(Stable) / [ICRA]A4+
NA	**Unallocated**	NA	NA		25.00	[ICRA]BB+(Stable) / [ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Relationship	TTSL Ownership	Consolidation Approach
One World Logistics Private Limited	Subsidiary	91%	Full Consolidation
R. N. Freight Forwarders Pvt Ltd	Subsidiary	60%	Full Consolidation
CP World logistics India Pvt Ltd	Subsidiary	100%	Full Consolidation
Total Transport Systems Pvt Ltd, Nepal	Subsidiary	64%	Full Consolidation
Seedeer India Pvt Ltd	Joint Venture	30%	Equity Method

Note: ICRA has taken a consolidated view of the parent (TTSL), its subsidiaries and joint venture while assigning the ratings.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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